

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
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FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 8513

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E.O. 11652: N/A
TAGS: EFIN, AR
SUBJECT: PARALLEL RATE FOR PESO INCREASES

1. DURING THE PAST FEW DAYS, THE SPREAD BETWEEN THE
PARALLEL MARKET RATE AND THE OFFICIAL FREE MARKET
RATE FOR THE PESO HAS INCREASED SUBSTANTIALLY. ACCORDING
TO FIGURES PUBLISHED IN CRONISTA COMERCIAL, PARALLEL
PESO/DOLLAR RATE ON JANUARY 10 WAS 305 BUY AND 310 SELL
AS OPPOSED TO OFFICIAL FREE MARKET RATE OF 278 BUY 283
SELL - A SPREAD OVER THE FREE MARKET BUY RATE OF 9.7
PERCENT.

2. THE PRESS AND FINANCIAL SOURCES ATTRIBUTE THE SPREAD
TO THE FOLLOWING FACTORS:

A) TOURIST DEMAND FOR DOLLARS. JANUARY - MARCH PERIOD
IS FAVORITE TIME FOR TRAVEL ABROAD BY ARGENTINES. THEY
ARE THEREFORE PURCHASING DOLLARS IN THE PARALLEL MARKET
TO SUPPLEMENT AMOUNTS THEY CAN OBTAIN LEGALLY.

B) INCREASED DEMAND FOR PARALLEL DOLLARS BY IMPORTERS WHO:

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1) WANT TO HEDGE AGAINST THE PROGRESSIVE
"MICRO-DEVALUATIONS" BY BUYING DOLLARS AT PARALLEL
MARKET SPOT RATE OR EXTERNAL BONDS, WHICH ARE
INTEREST-BEARING SUBSTITUTES AND TEND TO FLUCTUATE
WITH THE PARALLEL RATE;

2) WANT TO PAY SIGHT FOR IMPORTS BECAUSE THEY

CAN GAIN A DISCOUNT IN PRICE;

3) ARE UNDER-INVOICING IMPORTS TO REDUCE DUTIES
AND THEN NEED TO BUY FOREIGN EXCHANGE IN PARALLEL MARKET
TO COVER DIFFERENCE OWED TO EXPORTER.

3. DESPITE INCREASED INTEREST IN PARALLEL MARKET,
BANCO DE NACION CONTINUES TO ACCUMULATE FOREIGN
EXCHANGE AT RAPID RATE, WITH PURCHASES DURING WEEK
OF JANUARY 3 AVERAGING \$10 MILLION/DAY. SOURCES
ATTRIBUTE THE INFLOW OF FOREIGN EXCHANGE TO A CON-
TINUED FAVORABLE BALANCE OF TRADE AND AN INCREASED
FLOW OF FINANCIAL LOANS THROUGH THE FREE MARKET AS
SWAPS ARE TERMINATED. SOME OF THE FINANCIAL FLOWS
ARE BEING USED TO BUY EXTERNAL BONDS AS A FORM OF
EXCHANGE RATE INSURANCE AND THUS DRIVING UP THE
PRICE OF EXTERNAL BONDS AND INDIRECTLY THE PARALLEL
RATE.

4. FINANCIAL SOURCES CONSULTED BELIEVE THAT THE
SIZABLE SPREAD BETWEEN THE FREE MARKET AND PARALLEL
RATES WILL BE SHORTLIVED. THEY EXPECT THE ESTABLISH-
MENT OF A FORWARD FOREIGN EXCHANGE MARKET PRIOR TO
THE END OF JANUARY, THUS REDUCING THE DEMAND FOR
PARALLEL DOLLARS FOR HEDGING PURPOSES.
HILL

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Message Attributes

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Sent Date: 12-Jan-1977 12:00:00 am
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TAGS: EFIN, AR
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